COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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JOHN NAIMO
AUDITOR-CONTROLLER

August 1, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

John Naimo

FROM: John Naimo
Auditor-Controller

SUBJECT: **DEPARTMENT OF MENTAL HEALTH – PROCUREMENT REVIEW**

In August 2007, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Department of Mental Health's (DMH or Department) compliance with County purchasing and payment policies and procedures. The plan also identified other specialized procurement areas for review, such as pharmacy. On September 25, 2013, we reported the results of our DMH Pharmacy Operations Review to your Board.

We reviewed DMH's purchasing and payment practices for compliance with County policies and procedures. Our review included interviewing DMH personnel, reviewing purchasing and payment controls sampled from Fiscal Years (FY) 2013-14 and 2014-15, and analyzing commitments and accounts payable over multiple FYs to assess the ongoing necessity of these accruals. We also evaluated controls over DMH's use of the electronic Countywide Accounting and Purchasing System (eCAPS) Procurement and Payment functions.

Summary of Findings

We noted that DMH needs to improve its compliance with County purchasing and payment policies and procedures. The following are examples of areas for improvement:

- **DMH needs to ensure purchase orders are properly prepared and approved prior to making purchases, and that vendors are paid timely.** We noted that DMH initiated three (15%) of the 20 purchases reviewed, totaling $8,500, before preparing and approving purchase orders, and paid 11 (55%) invoices, totaling $1.9 million, an average of 124 days after the invoice date.

  DMH's attached response indicates that they reminded staff of the need to complete and approve purchase requisitions before issuing purchase orders. In addition, the Department will continue to monitor invoices via aging reports, and will remind staff of the importance of sending invoices to DMH's Accounting Division promptly to ensure timely payments.

- **DMH needs to monitor frequently purchased items from non-agreement vendors, and notify the Internal Services Department (ISD) of the potential for establishing vendor purchasing agreements to ensure the County receives the lowest possible prices.** During FY 2013-14, DMH made approximately 3,700 purchases, totaling $1.6 million, from a non-agreement vendor.

  DMH's attached response indicates that in March 2016, the Department established agreements with ISD for frequently purchased items (e.g., interpretation services, food delivery, etc.). The Department also indicated that they will continue to work with ISD to establish agreements for future frequently purchased items.

- **DMH should ensure that commitments and accounts payable are accurate, and cancel or reduce unneeded commitments and accounts payable.** Outstanding commitments and accounts payable reduce the County's available fund balance.

  We noted that $10.7 million (30%) of the $36.0 million in commitments at the beginning of FY 2014-15 were over one year old, and $5.4 million (15%) were over three years old. We reviewed 25 commitments, totaling $6.3 million, and noted that 16 (64%) commitments, totaling $3.0 million, should have been cancelled. We also reviewed 12 payments charged against commitments during FY 2014-15 and noted that six (50%) payments, totaling $149,100, were for goods and services that DMH had already received during the prior FY. DMH should have established accounts payable, not commitments, for these items.

  For accounts payable, DMH established an average of $67.3 million at the end of FYs 2010-11 and 2011-12, of which an average of approximately $36.9 million (55%) per year was never used. For FY 2012-13, DMH established $31.0 million in accounts payable, of which $7.8 million (25%) was never used. At the end of FY 2013-14, DMH established approximately $54.7 million in accounts payable. We reviewed ten of these accounts payable, totaling $9.3 million, and noted that five (50%), totaling $59,600, should not have been established. We also reviewed 20 payments charged as current year expenditures and noted that ten (50%), totaling $444,900, were for goods and services that were ordered and received during the prior FY.

DMH's attached response indicates that they will enhance existing procedures for reviewing commitments and accounts payable by requiring staff to justify the need for keeping commitments and accounts payable open.

- **DMH needs to periodically review eCAPS access to ensure access is still needed, and eliminate roles that are not in compliance with County policies.** In May 2015, we noted that 96 (30%) of the Department's 324 user identifications (IDs) had not been used. Thirteen (14%) of the 96 user IDs had never been used, and the remaining 83 (86%) had not been used from between three months and over four years. We also noted that eight users were given access beyond their job responsibilities and 20 users had incompatible eCAPS security roles, which could compromise the procurement process.

  DMH's attached response indicates that the Department is currently conducting a review of all security roles to resolve incompatible roles, re-evaluate user access, and delete unnecessary access. In addition, the Department indicated that they plan to evaluate new security role requests to identify incompatible roles and evaluate need, and will periodically review eCAPS user access for inactivity.

Details of these and other findings and recommendations are included in Attachment I.

Review of Report

We discussed our report with DMH management. The Department's attached response (Attachment II) indicates general agreement with our findings and recommendations, and describes actions the Department has taken or plans to take to implement our recommendations.

We thank DMH management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:TK

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Robin Kay, Ph.D., Acting Director, Department of Mental Health
Dave Chittenden, Chief Deputy Director, Internal Services Department
Department Heads
Audit Committee
Public Information Office

Attachment I

DEPARTMENT OF MENTAL HEALTH
PROCUREMENT REVIEW

Background

In August 2007, the Board of Supervisors (Board) instructed the Auditor-Controller (A-C) to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Department of Mental Health's (DMH or Department) compliance with County purchasing and payment policies and procedures. The plan also identified other specialized procurement areas for review, such as pharmacy. On September 25, 2013, we reported the results of our DMH Pharmacy Operations Review to your Board.

DMH's Materials Management Division (Materials Management) includes the Procurement Section and has primary responsibility for reviewing purchase requisitions, approving purchase orders, and ordering goods and services. DMH's Accounts Payable Section is responsible for reviewing and approving invoices and issuing payments to vendors. DMH's Fiscal Year (FY) 2014-15 services and supplies budget was approximately $1.5 billion.

Review Scope

We reviewed DMH's purchasing and payment practices for compliance with County policies and procedures. Our review included interviewing DMH personnel, reviewing purchases and payments, and evaluating internal controls. We also evaluated controls over DMH's use of the electronic Countywide Accounting and Purchasing System (eCAPS) Procurement and Payment functions.

General Purchasing and Payment Controls

County Fiscal Manual (CFM) Chapter 4 requires department staff to complete purchase requisitions to request items, and obtain management approval. Approved requisitions are sent to procurement staff, who issue purchase orders to vendors to order the requisitioned items. Purchase orders are formal agreements between the County and vendors which identify purchasing terms (e.g., item, quantity ordered, price, etc.), and are used to encumber budgeted funds. Purchases should not be initiated until the Department has properly approved requisitions and purchase orders, so there is no ambiguity about what is being purchased, the agreed upon pricing, and the availability of funds. The Internal Services Department (ISD), as the County's purchasing agent, delegated DMH the authority to purchase items under $5,000. All purchases over the delegated authority must be processed by ISD.

The CFM also requires staff to verify that goods and services have been received before paying vendors, and to pay vendors within 30 days of receiving invoices. In addition, an adequate separation of duties should exist between staff responsible for ordering and receiving goods and services, and approving purchases. For prepayments, ISD policy states that a prepayment should only be authorized when it cannot be avoided, and must be approved by ISD.

We reviewed ten purchases below DMH's $5,000 delegated purchasing authority, totaling $48,900, to determine if the Department complied with County procurement policies. We noted that the Department took available discounts, appropriately stamped invoices "paid," and properly documented sole source justifications. However, we noted the following areas for improvement:

- **Verifying Receipt of Goods and Services** – DMH did not have documentation that services were received for three (30%) purchases, totaling $14,700. Department staff should maintain documentation to support that goods and services have been received before paying vendors.

- **Inadequate Separation of Duties** – For two (20%) purchases, totaling $9,800, DMH did not maintain an adequate separation of duties. For example, for one purchase, a staff member requested items, applied one of the two required approvals on both the requisition and purchase order, and received the items. DMH needs to ensure proper separation of duties when making purchases.

- **Prepayment** – One (10%) purchase was a prepayment, totaling $5,000, and DMH did not obtain the required approval from ISD.

We also reviewed 15 purchases above DMH's $5,000 delegated purchasing authority, totaling $1.3 million, to determine if the Department maintained properly approved requisitions. For one (7%) purchase, totaling $68,800, DMH provided an approved requisition for $5,600, but purchased additional services, totaling $63,200, under the same requisition without obtaining proper approvals for the additional services. DMH should ensure that Department staff prepare, and managers approve, requisitions before purchases are made.

During our review of 20 accounts payable purchases (discussed further in the Accounts Payable section below), we also noted the following:

- **Purchase Orders** – DMH initiated three (15%) purchases, totaling $8,500, before preparing and approving purchase orders. DMH should ensure that Department staff prepare, and managers approve, purchase orders before purchases are made.

- **Timeliness of Payments** – DMH considers an invoice "received" when it arrives in DMH's Accounting Division. However, other units sometimes receive invoices first, and do not date-stamp them. As a result, we could not determine how long it took the Department to pay some invoices. At least 11 (55%) purchases, totaling $1.9 million, were paid an average of 124 days after the invoice date. In addition, DMH's Accounting Division paid five (25%) invoices, totaling $65,000, an average of 16 days after the 30 day payment requirement. DMH should ensure vendors send invoices directly to DMH's Accounting Division, staff date-stamp invoices immediately upon receipt, and vendors are paid within 30 days of receiving the invoice.

Recommendations

Department of Mental Health management:

1. **Ensure staff maintain documentation to support that goods and services have been received before paying vendors.**
2. **Ensure proper separation of duties when making purchases.**
3. **Obtain the Internal Services Department's approval for prepayments.**
4. **Ensure staff prepare, and managers approve, requisitions and purchase orders before purchases are made.**
5. **Instruct vendors to send invoices directly to the Department of Mental Health's Accounting Division.**
6. **Ensure staff date-stamp invoices immediately upon receipt.**
7. **Ensure vendors are paid within 30 days of receiving the invoice.**

Agreement and Non-Agreement Purchases

In order to achieve volume discounts, ISD establishes agreements with vendors for commonly purchased items. Each item is assigned a unique commodity code in eCAPS that indicates whether the item is available through a vendor agreement. When staff enter purchases in eCAPS, eCAPS will notify staff if a vendor agreement exists for that item. To ensure departments receive the negotiated agreement prices, staff must enter the correct commodity codes into eCAPS. Departments must also ensure that prices invoiced are correct.

For items not covered by an ISD agreement purchase order (i.e., non-agreement purchases), DMH can make purchases under $1,500 without price quotes. DMH is required to obtain three price quotes for non-agreement purchases between $1,500 and $5,000, unless the item is only available from one vendor and could not be easily substituted (sole source purchases). Purchases over a department's delegated purchasing authority (i.e., $5,000) must be processed by ISD, and departments may not split purchases to stay under their limit. In addition, departments should verify that items are not covered by an existing purchase agreement when procuring items from non-agreement vendors.

Departments can purchase items covered by agreements without obtaining price quotes, and purchases are not subject to the delegated purchasing authority limits.

However, these agreements cannot be used to purchase other, non-agreement items. ISD's purchasing policies indicate that departments should assist in identifying the potential need for additional agreements by monitoring frequently purchased non-agreement items, and notifying ISD of the potential for establishing new agreements when it is beneficial to the County.

We reviewed DMH's agreement and non-agreement purchases, and noted the following:

- **Frequent Purchases** – During FY 2013-14, DMH made approximately 4,600 office supply purchases from three vendors, totaling $1.7 million. In some of these instances, DMH made multiple supply purchases on the same day. We also noted that DMH made frequent purchases of office supplies, translation services, and/or dental services from three non-agreement vendors between FY 2011-12 and FY 2013-14. Specifically, for office supplies, 3,700 (80%) of the 4,600 purchases noted above, totaling $1.6 million, were made from one non-agreement vendor.

  DMH should review its purchasing processes to determine if purchasing activities can be consolidated to reduce purchasing volume, improve efficiency, and obtain more discounts. In addition, DMH should monitor frequently purchased items from non-agreement vendors, and notify ISD of the potential for establishing vendor purchasing agreements to ensure the County receives the lowest possible prices.

- **Incorrect Commodity Codes** – For three (30%) of the ten non-agreement purchases, totaling $14,800, DMH did not use the appropriate commodity code in eCAPS. Although in these cases the incorrect commodity codes did not result in higher costs, DMH needs to ensure that staff enter correct commodity codes into eCAPS to ensure the Department receives negotiated agreement prices.

- **Split Purchases** – We analyzed DMH's non-agreement purchases to identify purchases that may have been split. We reviewed a sample of five potential splits and determined that DMH split three (60%) of the purchases, totaling $6,300. For example, it appears that one purchase for catering services was split into two transactions for each day of a two-day training event, totaling $1,900. The catering transactions were processed on the same day by the same person to the same vendor. The Department indicated that this purchase was not intentionally split. However, these transactions should have been combined and the Department should have obtained three price quotes, which may have resulted in lower costs. DMH should not split purchases to circumvent purchasing requirements.

- **Purchase Documentation** – For one (7%) of the 15 agreement purchases, totaling $57,200, DMH did not maintain the invoice in the payment file. As a result, we were unable to determine if the items purchased were covered by an agreement and if DMH verified the agreement prices before paying the vendor. DMH should ensure invoices are maintained in payment files.

- **Use of Vendor Agreements** – DMH purchased non-agreement items on one (7%) of the 15 agreement purchases, totaling $17,500. DMH should purchase only agreement items against agreement purchase orders, and process all non-agreement purchases in excess of the Department's $5,000 delegated purchasing authority through ISD.

- **Agreement Purchase Verification** – For one (10%) of the ten non-agreement purchases, totaling $4,900, DMH could have saved $300 if they purchased from an agreement vendor. DMH management should ensure staff review existing vendor agreements before ordering goods and services to ensure DMH obtains the best price.

- **Sole Source Purchase** – For one (10%) of the ten non-agreement purchases, totaling $4,500, DMH should have properly identified/processed the purchase as sole source because the purchase was a maintenance renewal for software.

Recommendations

Department of Mental Health management ensure staff:

8. **Review the Department of Mental Health's purchasing processes to identify if purchasing activities can be consolidated.**

9. **Monitor frequently purchased items from non-agreement vendors, and notify the Internal Services Department of the potential for establishing vendor purchasing agreements.**

10. **Enter correct commodity codes into the eCAPS.**

11. **Do not split purchases to circumvent purchasing requirements.**

12. **Maintain invoices in payment files.**

13. **Purchase only agreement items against agreement purchase orders, and process all non-agreement purchases in excess of the Department's $5,000 delegated purchasing authority through the Internal Services Department.**

14. **Review existing vendor agreements before ordering goods and services.**

15. **Properly identify/process sole source purchases.**

Commitments and Accounts Payable

County departments establish encumbrances to reserve budgeted funds when goods and services are ordered. At the end of each FY, encumbrances are carried forward to the next year as commitments if the goods and services were ordered, but were not received, by the end of the FY.

Departments establish accounts payable for goods and services that were received, but were not paid for, by the end of the FY. While accounts payable are automatically cancelled at the end of the subsequent year, commitments are carried forward to future years. Departments are supposed to review their commitments and accounts payable to ensure they are accurate, and cancel any that are no longer needed. Outstanding commitments and accounts payable reduce the County's available fund balance.

Commitments

DMH had approximately 1,150 commitments, totaling $36.0 million, at the beginning of FY 2014-15. We noted that $10.7 million (30%) of DMH's commitments were over one year old and $5.4 million (15%) were over three years old. Commitments outstanding for more than one year may no longer be needed because departments generally receive goods and services within a year of placing an order.

We reviewed 25 commitments, totaling $6.3 million, and noted that 16 (64%) commitments, totaling $3.0 million, should have been cancelled because they were no longer needed (e.g., received and paid for all services, etc.). Four of these commitments had been carried forward from prior FYs and should have been cancelled over three years ago.

We also reviewed 12 payments charged against other commitments during FY 2014-15 and noted that six (50%) payments, totaling $149,100, were for goods and services that DMH had already received during the prior FY. DMH should have established accounts payable, not commitments, for these purchases. As a result, expenditures in the prior FY were understated and expenditures in the current FY were overstated. We also noted that the services for one additional payment, totaling $308,000, appeared to have been provided in two FYs. However, since the invoice did not clearly indicate when the services were provided, we were unable to determine if DMH should have established accounts payable for prior FY services.

Accounts Payable

DMH established an average of $67.3 million in accounts payable at the end of FYs 2010-11 and 2011-12, of which an average of approximately $36.9 million (55%) per year was never used. DMH also established $31.0 million in accounts payable at the end of FY 2012-13, of which $7.8 million (25%) was never used. According to DMH, accounts payable decreased at the end of FY 2012-13 because the Department requested accounts payable estimates from managers, instead of accruing outstanding encumbrance balances which is not an accurate representation of the goods and services received.

At the end of FY 2013-14, DMH established approximately $54.7 million in accounts payable. We reviewed ten accounts payable, totaling $9.3 million, and noted that five (50%), totaling $59,600, should not have been established. For example, we noted for two of the five accounts payable, DMH staff processed accounting transactions to accrue expenditures for goods and services not yet received. DMH staff should not acknowledge the receipt of goods and services until they are received/provided.

We also reviewed 12 payments charged to accounts payable, totaling $561,000, to ensure the goods and services were received in the prior year. We noted that two (17%) payments, totaling $6,000, were inappropriately charged. Specifically, one payment should have been charged against a commitment because the goods were not received before the end of the FY. The other payment was charged to an accounts payable not related to the goods and services received.

Finally, we reviewed 20 payments charged as current year expenditures and noted that ten (50%) payments, totaling $444,900, were for goods and services that were ordered and received during the prior FY. DMH should have established accounts payable for these goods and services.

DMH management should reinstruct staff on CFM requirements for establishing commitments and accounts payable. In addition, DMH management should review commitments and accounts payable to ensure they are accurate and cancel them if they are no longer needed.

Recommendations

Department of Mental Health management:

16. **Acknowledge the receipt of goods and services only when they are received/provided.**

17. **Reinstruct staff on County Fiscal Manual requirements for establishing commitments and accounts payable.**

18. **Review commitments and accounts payable to ensure they are accurate and cancel them if they are no longer needed.**

eCAPS Security

Unnecessary System Access

The Board of Supervisors' Information Technology (IT) and Security Policy 3.040 requires departments to restrict system access to staff who need it for their work. CFM

Section 8.7.4 also requires departments to periodically review user access to ensure it is authorized and appropriate. These controls help ensure accountability, and the integrity of IT data.

We noted that DMH does not periodically review each eCAPS user's access. In May 2015, 96 (30%) of the Department's 324 user identifications (IDs) had not been used. Thirteen (14%) of the 96 user IDs had never been used, with some having no activity for up to two years. The remaining 83 (86%) user IDs had not been used from between three months and over four years. To reduce the risk of unauthorized access and inappropriate activity, DMH management should only grant system access when needed, immediately remove unnecessary system access, and review system access regularly to ensure access is still needed.

Recommendations

Department of Mental Health management:

19. Ensure system access is granted only when needed.

20. Immediately remove unnecessary system access, and review system access regularly to ensure access is still needed.

Inappropriate Security Roles and Access

eCAPS allows authorized departmental personnel to initiate and approve transactions online, such as purchases and payments. Departments should periodically review each eCAPS user's access for authorization levels and separation of duties, to ensure they are appropriate and reduce the risk of errors or fraud.

We noted that DMH allowed staff to be assigned inappropriate eCAPS security roles. We reviewed DMH's eCAPS user list and noted:

- Eight users held job titles that were below the CFM requirement for their assigned eCAPS security roles.
- Seven users could approve requisitions and purchase orders. Although DMH's process is to utilize hard copy requisitions to obtain proper approvals for the purchase request, the seven users have the ability to approve requisitions and purchase orders in eCAPS.
- Seven users could enter/approve purchase orders and enter the receipt of goods.
- Four users could create/modify vendors and approve purchase orders.
- Two users could approve purchase orders and payments.

Department management should modify current eCAPS users' access profiles as necessary to eliminate roles that are not in compliance with County policies, and periodically review the eCAPS user list to ensure continued compliance.

Recommendation

21. Department of Mental Health management modify current eCAPS users' access profiles as necessary to eliminate roles that are not in compliance with County policies, and periodically review the eCAPS user list to ensure continued compliance.

Internal Control Certification Program

The A-C developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over administrative operations. Departments must review and evaluate controls in key administrative areas, and certify that proper controls are in place, or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues noted in DMH's procurement operations should have been identified when DMH completed their ICCP. However, DMH's ICCP did not identify all procurement control weaknesses. DMH management should ensure that the ICCP questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Recommendation

22. Department of Mental Health management ensure that the Internal Control Certification Program questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

LAC DMH
LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH
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ROBIN KAY, Ph.D.
Acting Director
DENNIS MURATA, M.S.W.
Acting Chief Deputy Director
RODERICK SHANER, M.D.
Medical Director

May 24, 2016

TO: John Naimo
Auditor-Controller

Robin Kay, Ph.D.

FROM: Robin Kay, Ph.D.
Acting Director

SUBJECT: **RESPONSE TO THE AUDITOR-CONTROLLER'S PROCUREMENT REVIEW**

This memorandum provides the Department of Mental Health's (DMH) response to the review conducted by your staff of DMH's procurement processes. We appreciate the opportunity to work with your staff in the identification of areas for improvement. The specific actions undertaken are outlined in this response.

Recommendation 1:

Ensure staff maintains documentation to support that goods and services have been received before paying vendors.

DMH's Response to Recommendation 1:

Agreed and recommendation will be implemented by June 30, 2017.

DMH is in the process of implementing a standardized procedure for the receipt of the packing slip documentation. All receiving will be processed at the site where the goods and services are received, and the signed packing slip will be scanned and attached to the eCAPS Procurement module RC (receiver) transaction.

The control is for the Accounts Payable staff to verify that the attachment exists in the RC and randomly test that the quantity matches the attached packing slip. The accuracy of the receiving remains with the area that created the eCAPS RC entry.

The responsible manager for the eCAPS RC transactions will be notified if attachments are missing. The item will be placed on an aging report that will be published weekly in order to meet the County's 30-day payment policy.

LA COUNTY BOARD OF SUPERVISORS
Hilda L. Solis | Mark Ridley-Thomas | Sheila Kuehl | Don Knabe | Michael D. Antonovich | Sachi A. Hamai, Chief Executive Officer

DMH Procurement staff will conduct a training program at each work site on the standardized procedure. The training will be conducted as swiftly as possible. DMH staff anticipates completing all training on or before June 30, 2017.

Recommendation 2:

Ensure proper separation of duties when making purchases.

DMH's Response to Recommendation 2:

Agreed and implemented.

The Department started the roll-out of an internal requisition system in June of 2010, called the Service Catalog. The Service Catalog prevents the requestor and approver from being the same person, thus establishing separation of duties. Currently, DMH has several commodities implemented through the Service Catalog including most information technology purchases, medical supplies/equipment, and business cards. Other commodities will be implemented in the near future. In April 2016 the Procurement staff was trained, provided with a flow chart and instructions to review all requests for procurement carefully. This should eliminate any issues regarding separation of duties for commodities that have not been implemented through the Service Catalog.

Recommendation 3:

Obtain the Internal Services Department's (ISD) approval for prepayments.

DMH's Response to Recommendation 3:

Agreed and implemented.

In July 2015, procurement staff was provided Purchasing Policy P-2000 instructing them to send all prepayment requests to the ISD for review and approval before requesting a check. When the approvers are reviewing the Special Request (SR), the email approval from ISD must be attached and reviewed prior to applying approval.

Recommendation 4:

Ensure staff prepares, and managers approve requisitions and purchase orders before purchases are made.

DMH's Response to Recommendation 4:

Agreed and implemented.

The procurement staff was reminded in their April 2015 monthly staff meeting to review the Purchasing and Policy Manual and to ensure that all purchase requisitions are to be completed and approved before issuing purchase orders. The Service Catalog system has these controls in place to ensure the purchase requisitions for commodities ordered are appropriately approved before purchase orders are processed. A blanket email was provided to each buyer as a template to send to vendors when issuing a Purchase Order (PO). The email stated that orders cannot be placed without a PO number attached with the order.

Recommendation 5:

Instruct vendors to send invoices directly to the Department of Mental Health's Accounting Division.

DMH's Response to Recommendation 5:

Agreed and implemented.

Accounts Payable's address is listed in the "Bill To" header on the front of the PO. We will request that ISD add the "8th Floor" to the address to better route the invoices to Accounts Payable. In April 2016, the Procurement Division added a reminder on the blanket email to address where to send invoices for prompt payment.

Recommendation 6:

Ensure staff date stamp invoices immediately upon receipt.

DMH's Response to Recommendation 6:

Agreed and implemented.

Currently, the Accounting Division - Accounts Payable Section date stamps all invoices received.

The Accounting Division - Provider Reimbursement Section implemented the use of an Invoice Log in January 2016 to standardize the handling of invoices received. All invoices will be date stamped, added to the log, and distributed to the responsible program staff member for approval for payment.

Recommendation 7:

Ensure vendors are paid within 30 days of receiving the invoice.

DMH's Response to Recommendation 7:

Agreed and the recommendation will be implemented by June 15, 2016.

The Accounting Division will continue to monitor and track invoices via Aging Reports. The Aging Reports are reviewed weekly and follow up is made with the responsible program staff member to achieve payment within 30 days.

A memorandum will be sent out by June 15, 2016, to all Deputy Directors, District Chiefs, Division Chiefs, and Program Heads reminding them of the importance of sending all invoices to the Accounting Division promptly.

Recommendation 8:

Review the Department of Mental Health's purchasing processes to identify if purchasing activities can be consolidated.

DMH's Response to Recommendation 8:

Agreed and the recommendation will be implemented by August 2016.

Procurement is working with end-users to consolidate paper purchases and to develop just-in-time ordering in order to improve delivery and storage space. Procurement is also working with end-users to review purchasing trends and standardize office supplies and other Department-wide purchases. The Department is expanding the capacity of the warehouse to accommodate standardized office supplies so bulk orders can be placed and housed in the warehouse.

Recommendation 9:

Monitor frequently purchased items from non-agreement vendors and notify the Internal Services Department of the potential for establishing vendor purchasing agreements.

DMH's Response to Recommendation 9:

Agreed and implemented.

Procurement reviewed routinely purchased non-agreement items and in March 2016 established agreements with ISD for frequently purchased items such as interpretation services, food deliveries, and notary services. Procurement will continue to work with ISD for future frequently purchased items.

Recommendation 10:

Enter correct commodity codes into the electronic Countywide Accounting and Purchasing System.

DMH's Response to Recommendation 10:

Agreed and implemented.

The Procurement staff was instructed during the April 1, 2016 staff meeting, and will continue to be reminded during monthly meetings to use commodity codes specific to the purchase. Procurement will consult with ISD whenever a commodity code cannot be located and will ask for a recommendation when needed.

Recommendation 11:

Do not split purchases to circumvent purchasing requirements.

DMH's Response to Recommendation 11:

The Procurement staff was instructed in February 2016 not to approve any split purchases even if it is an emergency. The split purchase identified was within the Department's delegated authority and will have proper justification attached to the request in the future. Procurement staff are assigned commodities and will ensure that any sign of possible splitting will be brought to management's attention. Staff will be reminded in monthly meetings to be wary of purchase splitting.

Recommendation 12:

Maintain invoices in payment files.

DMH's Response to Recommendation 12:

Agreed and the recommendation will be implemented by June 1, 2016.

The Accounting Division will implement a Checkout Card process to record when a document is removed from the file. The process will identify who removed the document, the date it was removed, and the date it was returned. The process will be implemented by June 1, 2016.

Recommendation 13:

Purchase only agreement items against agreement purchase orders, and process through the Internal Services Department all non-agreement purchases in excess of the Department's $5,000 delegated purchasing authority.

DMH's Response to Recommendation 13:

Agreed and implemented.

In July 2015, the Department implemented online ordering for office supplies that are all under agreement. Office supply purchases account for 70 percent of the total purchase volume within the Department. The online items restrict the users to only select items under the office supply agreements. Procurement staff will monitor requests for non-agreement items to determine if the frequency with those commodities requested is increasing. The Procurement Supervisor will look at all agreement purchases to ensure that all items are on agreement and no non-agreement items are included on the purchase order. The Procurement staff will work with ISD to formulate an agreement or request to add onto the existing agreements for any additional commodities that are required.

Recommendation 14:

Review existing vendor agreements before ordering goods and services.

DMH's Response to Recommendation 14:

Agreed and implemented.

Procurement staff was further trained by management in March 2016 on how to review the items covered under agreements and will work with ISD to purchase non-agreement items through sole source processing or formal solicitations. Approvers of purchases will monitor non-agreement orders to ensure there are no agreements for items, or the items being purchased off agreement are a cost saving to the Department.

Recommendation 15:

Properly identify/process sole source purchases.

DMH's Response to Recommendation 15:

Agreed and implemented.

The Procurement staff was further trained in March 2016 by management to properly identify and process sole source purchases within the Department's delegated purchasing authority. Approvers of purchases will monitor sole source orders to ensure legitimacy of the sole source and that the proper documents are attached to the PO.

Recommendation 16:

Acknowledge the receipt of goods and services only when they are received/provided.

DMH's Response to Recommendation 16:

Agreed and implemented.

The warehouse and accounts payable staff was reminded in February 2016 to enter into eCAPS the receipt of goods and services only when delivered/completed upon written confirmation. They were further instructed not to enter the receipt of goods, or services just to pay an invoice without written confirmation of receipt of goods or completion of services.

Recommendation 17:

Reinstruct staff on County Fiscal Manual requirements for establishing commitments and accounts payable.

DMH's Response to Recommendation 17:

Agreed and implemented.

Each year, the procurement staff receives a report from Auditor-Controller (A-C) to review and cancel any balances from prior year unless otherwise needed. Procurement submits a report to Budget to send the master file to A-C for mass cancellation. The procurement staff will work closely with end-users to identify commitments and cancel them when not needed once a written confirmation from the end-users is provided.

Recommendation 18:

Review commitments and accounts payable to ensure they are accurate and cancel them if they are no longer needed.

DMH's Response to Recommendation 18:

Agreed and the recommendation will be implemented by August 31, 2016.

The Accounting Division and the Budget and Financial Reporting Division will enhance their existing procedures for commitment and accounts payable cancellations by obtaining specific information, complete with justifications, from applicable program staff members of why the commitment and accounts payable balances are needed. The specific information will include the amount needed and the purpose that the balance is needed. This enhanced procedure will be implemented by August 31, 2016.

Recommendation 19:

Ensure system access is granted only when needed.

DMH's Response to Recommendation 19:

Agreed and implemented.

The Office of the Administrative Deputy, Operations Division assumed responsibility for the Security Coordinator role for DMH effective January 2016. The Operations Division is conducting a Department-wide review of eCAPS users' access to resolve security role conflicts and re-evaluate staff access, especially for those who have not regularly logged onto the system. This process is expected to be completed by June 30, 2016. Protocols have been implemented to provide for regular monitoring of the exception/inactivity and deactivation reports. Unnecessary staff access codes are being deleted. The eCAPS User Agreement Form will now also be part of the staff exit forms to complete and return to the Operations Division to immediately remove system access. When staff is listed on the deactivation list, Operations Division staff confirms whether access is locked; if it is not, staff is notified, and access is immediately locked. Moving forward, each time a request for eCAPS access is received, Operations Division staff is trained to confirm the requestor's current access using the financial user activity report to ensure there is no data entry/create/modify/approve conflicts prior to granting security roles, and that the requested roles are needed to carry out work-related functions. When there is a conflict, access to the new security role is denied unless approved by the Auditor-Controller.

Recommendation 20:

Immediately remove unnecessary system access, and review system access regularly to ensure access is still needed.

DMH's Response to Recommendation 20:

Agreed and implemented.

Due to the limitation of staffing and the need for control over the process, the Department designed the flow of purchases over the delegated authority with an additional approver during the implementation of eCAPS. It was not brought to light that an additional non-ICP approval would create a conflict in security roles. See response under Recommendation 19.

Recommendation 21:

Department of Mental Health management modify current electronic Countywide Accounting and Purchasing System users' access profiles as necessary to eliminate roles that are not in compliance with County policies, and periodically review the electronic Countywide Accounting and Purchasing System user list to ensure continued compliance.

DMH's Response to Recommendation 21:

Agreed and implemented.

The Office of the Administrative Deputy, Operations Division assumed responsibility for the Security Coordinator role for DMH effective January 2016. The Operations Division is conducting a Department-wide review of eCAPS users' access to resolve security role conflicts, re-evaluate staff access, and delete unnecessary user access. This process is expected to be completed by

June 30, 2016. Also, each time a request for eCAPS access is received, Operations Division staff confirms the requestor's current access using the financial user activity report to ensure compliance, and that there is no data entry/create/modify/approve conflicts prior to granting security roles and if those roles are needed to carry out work-related functions. On a monthly basis as the exception/inactivity and deactivation reports are monitored; employees, supervisors, and managers are notified of infrequent usage and/or endanger of being deleted. Access is being re-evaluated, and unnecessary access is deleted/locked.

Recommendation 22:

Department of Mental Health management ensure that the Internal Control Certification Program questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

DMH's Response to Recommendation 22:

Agreed and will be implemented.

Effective with the next ICCP reporting period, staff from the Office of the Administrative Deputy (OAD) who are not part of the Procurement process, will complete the questionnaires. The staff will observe and interview Procurement staff to determine if proper controls are in place, and improvement plans are developed and reviewed by management. OAD staff will also monitor to ensure corrective actions are completed.

If you have any questions, please call me, or your staff may contact Margo Morales, Administrative Deputy, at (213) 738-2891.

RK:MM:ag

c: Dennis Murata, M.S.W.
Margo Morales